

**REPORT OF THE AUDIT OF THE
HOPKINS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HOPKINS COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Hopkins County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$23,043 from the prior year, resulting in excess fees of \$672,762 as of December 31, 2004. Revenues decreased by \$17,807 from the prior year and expenditures increased by \$27,457.

Report Comment:

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Patricia M. Hawkins, Hopkins County Judge/Executive
The Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Hopkins County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2005, on our consideration of the Hopkins County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Patricia M. Hawkins, Hopkins County Judge/Executive
The Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Hopkins County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2005

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

State - Kentucky Law Enforcement Foundation Program Fund		\$	53,507	
State Fees For Services:				
Finance and Administration Cabinet	\$	69,652		
Sheriff Security Service		55,775		
Cabinet For Human Resources		1,807		
Other		135		127,369
Circuit Court Clerk:				
Fines/Fees Collected	\$	9,512		
Serving Papers		791		10,303
County Clerk - Delinquent Taxes				4,025
Commission On Taxes Collected				407,851
Fees Collected For Services:				
Auto Inspections	\$	23,495		
Accident and Police Reports		172		
Serving Papers		35,990		
Carrying Concealed Deadly Weapon Permits		6,930		
In Lieu of Taxes		1,330		
Property Tax Fees:				
Penalty Fees	\$	55,235		
Collection Fees		6,350		
Advertising Fees		5,790	67,375	135,292
Other:				
Miscellaneous				12,110
Interest Earned				171
Total Revenues			\$	750,628

The accompanying notes are an integral part of this financial statement.

HOPKINS COUNTY
 FRANK LATHAM, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures:

Contracted Services-

Advertising		\$	1,178
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Materials and Supplies-

Office Materials and Supplies			43
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Other Charges-

KLEFPF - Paid to County	\$	53,507	
Transporting Fugitives		9,565	
Refunds		5,234	
Carrying Concealed Deadly Weapon Permits - State		4,610	
Miscellaneous		1,641	
Executions		1,358	
Narcotics Investigations		400	
Jurors		196	
Postage		134	
		<hr/>	<hr/>
			76,645

Total Expenditures		\$	<hr/> 77,866 <hr/>
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Excess Fees Due County for 2004		\$	672,762
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Payments to Fiscal Court -

Monthly through 2004	\$	618,196	
February 2005		<hr/> 54,566 <hr/>	<hr/> 672,762 <hr/>

Balance Due Fiscal Court at Completion of Audit		\$	<hr/> <hr/> 0 <hr/>
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The accompanying notes are an integral part of this financial statement.

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2004, the depository institution failed to pledge sufficient collateral to the Sheriff's deposits, and the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$3,703,391 of public funds uninsured and unsecured.

HOPKINS COUNTY
 FRANK LATHAM, COUNTY SHERIFF
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end as of November 5, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	5,000,000
Uncollateralized and uninsured	<u>3,703,391</u>
Total	<u><u>\$ 8,803,391</u></u>

Note 4. Drug Fund

The Sheriff maintained a drug fund for drug related receipts and expenditures. The balance of the fund as of January 1, 2004 was \$2,215. During the calendar year receipts of the drug fund were \$5,131 including \$40 interest and disbursements were \$3,529 resulting in a balance of \$3,817 as of December 31, 2004.

Note 5. D.A.R.E. FUND

The Hopkins County Sheriff's Drug Abuse Resistance Education (D.A.R.E.) officer maintains a D.A.R.E. fund for the promotion of drug awareness and drug prevention among local youth. The D.A.R.E. fund had a balance of \$15,020 as of January 1, 2004. Receipts and disbursements for the fund were \$162 and \$3,650 respectively during the calendar year. As of December 31, 2004, the balance was \$11,532.

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COMMENT AND RECOMMENDATION

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

December 31, 2004

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2004, the depository institution failed to pledge sufficient collateral to the Sheriff's deposits, and the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$3,703,391 of public funds uninsured and unsecured.

Sheriff's Response:

As a result of having the Sheriff's bank accounts with US Bank for several years, it was decided to move the accounts to another institution. After having several meetings with the President and Vice-Presidents of Community First Bank and having been assured that their Institution could meet the pledge requirements, the accounts were moved to the local bank, and opened August 31, 2004. The Sheriff entered into a written agreement with Community First Bank, and subsequently, expected the Institution to uphold the agreement. [See next page for continuation of response.]

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
December 31, 2004
(Continued)

[The following letter from Community First Bank was submitted by Sheriff Frank Latham to be included with his response.]



December 7, 2005

Frank Latham, Sheriff
Hopkins County Sheriff's Department
25 East Center Street
Madisonville, KY 42431

Mr. Latham:

On August 31, 2004 the Hopkins County Sheriff's Department opened three separate money market accounts with Community First Bank. The three accounts were labeled "Sheriff's Fee Account," "Property Tax Account," and "Franchise Account." Because the money deposited into these accounts was public funds, our bank was required to pledge collateral for all balances above the \$100,000 limit insured by the FDIC.

As stated on the October 10, 2005 questionnaire from your auditors, the amount of the bank's securities pledged as collateral for your balances was less than the amount of your deposits on November 5, 2004.

The year 2004 was our first year to provide these accounts for the Sheriff's Department, and the dramatic fluctuations in deposits from day to day caught us off guard. We anticipated large deposits for these accounts based upon information provided to us, but the dollar amount of these deposits came much more quickly than we had anticipated.

In reviewing my notes during this time period, we began our efforts to pledge collateral on October 22, 2004. At that time, all of the bank's existing securities were already pledged for another entity, so we were left with the alternative of purchasing certificates of deposit from the Federal Home Loan Bank of Cincinnati (FHLB) to serve as collateral.

In attempting to obtain the necessary CDs, we discovered that we did not have the required documentation in place with the FHLB to immediately purchase CDs and have them pledged. We were required to go through a series of steps to put that documentation in place. These stages of documentation took several days and it wasn't

HOPKINS COUNTY
FRANK LATHAM, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
December 31, 2004
(Continued)

until November 5, 2005 that we were able to purchase and pledge \$5 million in FHLB CDs on behalf of the Hopkins County Sheriff's Department.

Ultimately, we should have been prepared to purchase and/or pledge the necessary collateral before it was even needed. In this regard, we fell short of our obligation to the Sheriff's Department and to the people of Hopkins County.

I respectfully apologize for the position of risk that we exposed all parties to in this serious oversight. Fortunately the issue was eventually corrected, however, it cannot be overlooked that a mistake was made. If I can answer any questions regarding this matter, please contact me at 270-326-3546. My office is located at 2420 North Main Street if a personal visit is required, or I can meet with you in your office at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Michael D. Wortham".

Michael D. Wortham
Vice President

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Patricia M. Hawkins, Hopkins County Judge/Executive
The Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Hopkins County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated December 15, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hopkins County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is described in the accompanying comment and recommendation.

- The Depository Institution Should Have Provided Sufficient Collateral Of \$3,703,391 To Protect Deposits As Required By The Written Agreement



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2005

